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FOR NEA AND H

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SUBJECT: CODEL MCCONNELL'S APRIL 6 MEETING WITH GAMAL MUBARAK

Classified By: DCM Matthew Tueller for reasons 1.4 (b) and (d).

1. (C) Key Points

-- Gamal Mubarak told CODEL McConnell that Egypt remained committed to economic reform despite the global financial crisis.

-- Egypt wants increased trade with the U.S.; however, it is looking elsewhere for trade opportunities as well, including the EU, Russia, and China.

-- The demise of Saddam Hussein has led to a dangerous rise in Iranian influence in the region; however, diplomacy should be "given a chance" to deal with Iran.

-- In dealing with the Iranian nuclear issue, the United States needs to remember that it is only one of many difficult challenges in the Middle East; we must first understand the complex context in order to successfully deal with such issues.

-- The Israeli-Palestinian conflict needs urgent attention; Israeli settlements should cease as soon as possible; "time is on no one's side."

-- The statements of Israeli Foreign Minister Lieberman, while not surprising, are nonetheless a cause for great concern.

2. (SBU) On April 6, Senators Mitch McConnell (R-KY), Saxby Chambliss (R-GA), John Barrasso (R-WY), and James Risch (R-ID) met with Gamal Mubarak and two of his senior staff for about one hour at his office in Cairo. The Ambassador, three professional Senate staffers, and ECPO Minister Counselor as note taker also attended.

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Moving Forward With Economic Reform  
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3. (C) Gamal, a former international banker, assured CODEL McConnell that despite the global economic crisis, the Government of Egypt (GoE) was committed to seeing through its ambitious economic reform program, legislatively and practically. Fortunately, Egypt went through its own "banking crisis" about six years ago, emerging as a very "conservative" sector and has been largely unscathed by the current crisis. According to Gamal, about 40 per cent of Egypt's deposit base is now in private banks, as well as 40 per cent of loans. Privatization and subsidy reforms will continue, he said, although there will be political and social resistance. "But our conviction remains that economic reform is the only way forward."

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QIZ As Stepping Stone to FTA  
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4. (C) Egypt has had success in reaching out to new trade partners, Gamal said, in particular the Europeans. Egypt is also looking to the East, he added, including to Russia and China. It was unfortunate that Free Trade Agreement talks with the U.S. broke down. Egypt's Qualified Industrial Zone

(QIZ) program has "helped a lot," but Egypt sees it only as a "transitional phase" to an FTA, but cannot be seen as "in place of" one.

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Iraq and Iran  
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¶5. (C) Turning to Iraq, Gamal said that "the big question is "what will Iraq be like after the withdrawal of U.S. forces?" Egypt and the GCC worry that Iran will "move in" to Iraq and "leverage its influence throughout the region." "Iranian influence in Iraq is already on the rise," Gamal averred. "What we do not want is a weak Iraq that will be subject to Iranian influence. Will Iran be able to use Iraq as a base to stage the spread of its influence throughout the region?" Gamal asked rhetorically. As bad as Saddam was, he continued, he served as a balance to the Iranians. Responding to Senator McConnell query as to what the U.S. should do, Gamal said, "Give diplomacy a chance." Re-engaging with Iran, Gamal opined, might yield positive results -- "if Iran is serious about dialogue." It is important to remember, however, that "time is on Iran's side." responding to a question as to Iran's ultimate goal, Gamal said it was to export the 1979 revolution, to include "their version of Islam, and their version of 'state.'" Iran now sees an opportunity for "pure power and dominance in the region."

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Iran's Nuclear Program  
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¶6. (C) Responding to a question about Iran's nuclear program, Gamal stressed that, from Egypt's point of view, all the problems of the Middle East are inter-related. "You cannot see the Israeli-Palestinian conflict or Iran's nuclear program as separate." Iran has capitalized on the failure of the peace process to deliver, Gamal went on. "Iran has been able to exploit all the problems in the region." Egypt's policy is to have a nuclear-free Middle East. Allowing Israel to possess nuclear weapons has made that a difficult position to maintain. Even though regional governments fear Iran's nuclear program and seek to halt it, popular opinion sees a "double-standard" which approves of Israel's nuclear program but not Iran's.

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Israeli-Palestinian Conflict  
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¶7. (C) The Palestinian split, Gamal explained, is yet another conflict the Iranians are able to exploit. Egypt is working hard to heal the Palestinian rift, but "Israel is not helping." The public statements of the new Israeli government "from the first day" have been harmful. Through the decades, both sides have missed golden opportunities. "Both Arabs and Israelis believed that time as on their side. We were both wrong." Now time is against us; and on the "on the side of extremists." To start with, Israel must halt the settlements, and halt them soon. If the Israelis are serious about a two-state solution -- "And Prime Minister Netanyahu has refused to speak the words 'two-state solution' -- they must begin to dismantle the settlements. "Even the Mitchell Report said so." Every day we delay, Gamal added, "public opinion moves more to extremism, on both sides."

¶8. (U) CODEL McConnell was unable to clear this cable before departure.

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